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Creative Accounting as a Means of Influencing an Enterprise's Financial Reporting *

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Abstract

Creative accounting is a phenomenon that has generated considerable controversy because, both in practice and in the academic literature, it is associated either with the legitimate application of permissible accounting methods or with the manipulation of financial information. The purpose of this paper is to examine the essence of creative accounting, identify the differences between its legitimate application and aggressive accounting, and assess the significance of the flexibility provided by accounting regulations for the quality of financial reporting. The study is based on a review of the relevant literature, an analysis of applicable accounting regulations, and a case study of the CD Projekt Group. The findings demonstrate that an appropriately designed accounting policy, developed in accordance with accounting regulations, enables a more faithful representation of an entity's financial position, financial performance, and overall economic situation. Using the example of CD Projekt, the paper illustrates the impact of capitalising development costs on the application of the matching principle and on the quality of financial information disclosed in financial statements.

The results confirm that creative accounting, understood as the conscious application of legally permissible accounting methods, may serve as an instrument for improving both the usefulness and reliability of financial reporting. At the same time, the paper emphasises the necessity of clearly distinguishing creative accounting from aggressive accounting and accounting fraud, whose primary objective is the deliberate misrepresentation of an entity's economic position.

Keywords: creative accounting, aggressive accounting, accounting policy, financial reporting, CD Projekt, development costs

Introduction

Accounting constitutes one of the fundamental information systems within an enterprise, providing data necessary for economic decision-making by managers and other stakeholders. Its primary objective is to identify, measure, record, and present economic events in a manner that ensures a faithful representation of an entity's financial position, financial performance, and operating results. Achieving this objective requires not only compliance with applicable accounting regulations but also the application of accounting solutions appropriate to the specific characteristics of the entity's business activities.

Accounting legislation and accounting standards provide entities with a certain degree of flexibility in selecting accounting methods for the measurement, recognition, and presentation of economic events. This flexibility allows accounting polic

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ies to be tailored to the nature of an entity's operations, thereby contributing to a more faithful representation of its economic reality. At the same time, the possibility of choosing among alternative accounting methods may be used to influence the image of an entity presented in its financial statements, raising questions concerning the limits of permissible discretion and the reliability of reported financial information.

The use of accounting solutions permitted under applicable regulations is commonly referred to as *creative accounting*. In the academic literature, this concept is interpreted in two distinct ways. On the one hand, it refers to the deliberate application of lawful accounting methods aimed at faithfully reflecting the economic substance of transactions and enhancing the usefulness of financial information. On the other hand, creative accounting is frequently associated with financial statement manipulation and practices intended to distort the true picture of an entity's financial condition. In reality, such practices should be distinguished from creative accounting in its positive sense, as they represent manifestations of aggressive accounting or accounting fraud that violate accounting principles and legal regulations.

The purpose of this paper is to explain the essence of creative accounting and to distinguish between its legitimate application and practices characteristic of aggressive accounting. To achieve this objective, the paper analyses the relevant accounting regulations and the views presented in the academic literature. Furthermore, a case study of the CD Projekt Group is presented to illustrate the use of legally permissible accounting methods in achieving a faithful representation of an enterprise's economic reality.

Aggressive Accounting versus Creative Accounting

The first modern work on accounting dates back to 1494, when **Luca Pacioli** introduced the principles of doubleentry bookkeeping (Pacioli L., 1494). At that time, the role of accounting was relatively limited and primarily focused on providing information to business owners. Its importance increased significantly with the development of market economies, as the expansion of business entities transformed accounting into an indispensable component of every enterprises (Sendor P., et. al., 2024).

Today, accounting represents one of the most fundamental elements of business operations. It provides essential information supporting rational and economically sound decision-making by both internal management and external stakeholders, including investors. Consequently, the information generated by the accounting system should be reliable, objective, complete, and free from material errors, faithfully reflecting the economic events occurring within the entity.

In practice, however, intense market competition and pressure to achieve favourable financial results encourage some entities to adopt methods and techniques associated with creative accounting in order to present their financial position in a more favourable light. Consequently, accounting no longer serves solely an informational function but may also significantly influence the corporate image perceived by stakeholders.

The accounting literature contains numerous terms used interchangeably to describe the manipulation of accounting results, including creative bookkeeping, creative accounting, aggressive accounting, and window dressing. In recent years, particular attention has been devoted to the concepts of creative accounting and aggressive accounting, which are often incorrectly treated as synonymous and perceived exclusively in a negative context (Maćkowiak E., 2015).

According to **A. Hołda**, the concept of creative accounting appeared in the English-language literature as early as the 1970s to describe accounting policies intentionally designed by management to mislead users of financial statements regarding an entity's assets and financial position. However, the term gained widespread popularity during the mid-1980s (Hołda A., 2016).

The concept of creative accounting may be interpreted from several perspectives:

- the innovative application of accounting standards aimed at presenting a clear and transparent picture of an entity without violating accounting regulations or standards;
- the use of inappropriate accounting methods intended to achieve legally disguised manipulation;
- the disregard of accounting standards or their improper interpretation (Lakis V., et. al., 2018).

Creative accounting is a multidimensional concept that cannot be defined unambiguously. The academic literature presents a variety of interpretations of this phenomenon. Some definitions emphasise its positive aspects, highlighting the opportunities and benefits that creative accounting may provide for an enterprise. Others adopt a neutral perspective, focusing primarily on legal compliance and the objectives underlying the application of creative accounting. Conversely, many authors approach the concept critically, stressing the risks associated with its misuse and the narrow boundary separating creative accounting from accounting fraud.

Creative accounting is a concept that is difficult to define unambiguously. The academic literature presents numerous approaches to explaining its essence, reflecting the diversity of opinions regarding its role in accounting practice. Many authors attribute a distinctly positive meaning to the concept, emphasising the opportunities and benefits that creative accounting may bring to an enterprise. Equally common is a neutral (ambivalent) perspective, which avoids assigning either positive or negative connotations and instead focuses on legal compliance and the objectives pursued through the application of creative accounting. Conversely, other researchers adopt a critical approach, highlighting the potential risks associated with creative accounting and the thin line separating it from accounting fraud. Consequently, the way creative accounting is perceived depends largely on the author's perspective and the context in which the concept is defined.

When discussing the positive aspects of creative accounting, many scholars refer to the very notion of *creativity*. Intuitively, creativity is perceived as the ability to develop innovative and original solutions that extend beyond conventional approaches. **M. Tokarski** argues that the term *creative accounting* is frequently used exclusively in a negative context, whereas creative accounting solutions may, in fact, be lawful and beneficial for users of financial statements (Tokarski M., 2009). Similarly, **A. Maćkowiak** maintains that creativity in accounting should be regarded as a positive phenomenon because it involves applying accounting principles and recording transactions in accordance with regulations, including those that provide only indirect guidance. In this sense, creativity enables entities to benefit from legally permissible accounting solutions by taking advantage of gaps or areas of flexibility within accounting regulations. Since not every economic event is explicitly regulated, accountants are often required to interpret accounting standards individually in order to ensure that transactions are recognised according to their economic substancje (Maćkowiak E., 2015). According to P. Gut, creative accounting refers to the recording, processing, and presentation of economic events through the application of existing accounting regulations and properly interpreted accounting principles in ways that are not explicitly prescribed by legislation but result from innovative, imaginative, and non-standard applications of those principles

(Zgółkowska H., et. al., 1998; Gut P., 2006). Likewise, D. Krzywda argues that contemporary accounting actually requires accountants to demonstrate creativity (Krzywda D., 1999). Positive creative accounting is practised by the majority of enterprises because creativity, when exercised in accordance with accounting legislation, contributes to presenting financial information fairly and transparently. Any management decision aimed at improving the presentation of information in financial statements—provided that it faithfully reflects economic reality—may therefore be regarded as an example of positive creative accounting. An essential feature of this approach is full disclosure in the financial statements, including both the reasons for the adopted accounting solution and its financial consequences. An example would be justified changes in depreciation rates that are adequately explained in the notes to the financial statements (Król D., 2015). A similarly favourable interpretation is presented by **M. Białas-Szymańska**, who defines creative accounting as *an approach to accounting that recognises changes occurring within an entity and responds to them appropriately, thereby ensuring an adequate presentation of financial information in financial statements.*

Some accounting researchers adopt a more cautious approach, emphasising that the overriding condition for creative accounting is compliance with accounting legislation and accounting standards. For example, **S. Surdykowska** argues that the term *creative accounting* should be reserved exclusively for innovative accounting solutions that remain fully consistent with legal regulations. Likewise, **A. Baranów** maintains that creative accounting aims to present an enterprise's operations in a more favourable light without misleading stakeholders or distorting its actual financial condition.

A widely recognised academic definition is proposed by **Kamal Naser**, who states:*Creative accounting is the transformation of financial accounting figures from what they actually are to what preparers desire by taking advantage of existing rules and/or ignoring some or all of them* (Naser K., 1993)

The above definitions suggest that creative accounting may create added value for an enterprise only when it operates within legally permissible boundaries and does not undermine the reliability of financial information. In practice, however, the distinction between innovative accounting solutions and deliberate financial statement manipulation is extremely narrow, and crossing this boundary may expose an enterprise to significant legal, financial, and reputational risks.

In contrast, a number of researchers define creative accounting exclusively in negative terms, considering it unethical and potentially harmful. N. Tarba and A. Rusu argue that creative accounting refers to accounting practices that exploit accounting standards through sophisticated techniques designed to alter the true financial position of an enterprise in a desired direction (Tarba N., et. al., 2011) Similarly, **R. A. Lambert** emphasises that creative accounting leads to the misrepresentation of financial statements and is intended to facilitate fraud and manipulation (Lambert R. A., 1984). Likewise, **O. Amat, J. Blake, and J. Dowds** describe creative accounting as a process in which accountants exploit their knowledge of accounting principles to manipulate reported financial results (Amat O., et. al., 1998). According to **M. Stanisławska**, creative accounting is *the deliberate misleading of financial statement users through the distortion of an entity's actual financial condition.*
An even more critical opinion is expressed by **W. Wąsowski**, who argues that: *Regardless of whether creative accounting merely represents cosmetic improvements or constitutes deep interference with financial reporting, both forms ultimately cause harm.*

Despite these critical interpretations, it is essential to distinguish creative accounting from aggressive accounting and accounting fraud. Treating these concepts as synonymous is inconsistent with both accounting theory and professional practice and contributes to misunderstanding the true nature of creative accounting.

The defining characteristic of positive creative accounting is that all accounting decisions influencing the recognition, measurement, and presentation of financial information are made in full compliance with applicable legislation while making use of the flexibility provided by accounting standards. Such practices do not undermine an enterprise's credibility. On the contrary, they are often regarded positively by auditors because they demonstrate an entity's efforts to maintain competitiveness and adapt its accounting policies to changing economic conditions. Accounting fraud, by contrast, is closely associated with **aggressive accounting**, whose primary objective is to conceal the true financial position of an entity through unlawful manipulation of accounting records and financial statements. The distinction between positive creative accounting and aggressive accounting is therefore fundamental and lies in the intention behind managerial decisions, the degree of faithful representation achieved, and compliance with accounting regulations.

Financial statements increasingly rely on estimates and professional judgement, creating favourable conditions for the manipulation of financial information. As **M. Jones** observes, the flexibility inherent in accounting opens the door to numerous creative accounting techniques. This flexibility is embedded in the very nature of accounting, making the boundary between creative accounting and accounting fraud often difficult to Defie (Jones M., 2012). Business entities apply various accounting methods and financial reporting techniques with the objective of presenting information that meets the expectations of financial statement users. Consequently, financial reporting may contain, to varying degrees, elements associated with aggressive accounting practices. Fraud occurs when individuals possess both the motivation and the opportunity to manipulate accounting information. The academic literature frequently refers to this phenomenon as **fraudulent financial reporting**, which is by no means a recent occurrence (Lakis V., et. al., 2018). Accounting fraud has existed for centuries;

however, during the last several decades, cases involving aggressive accounting have become increasingly common.

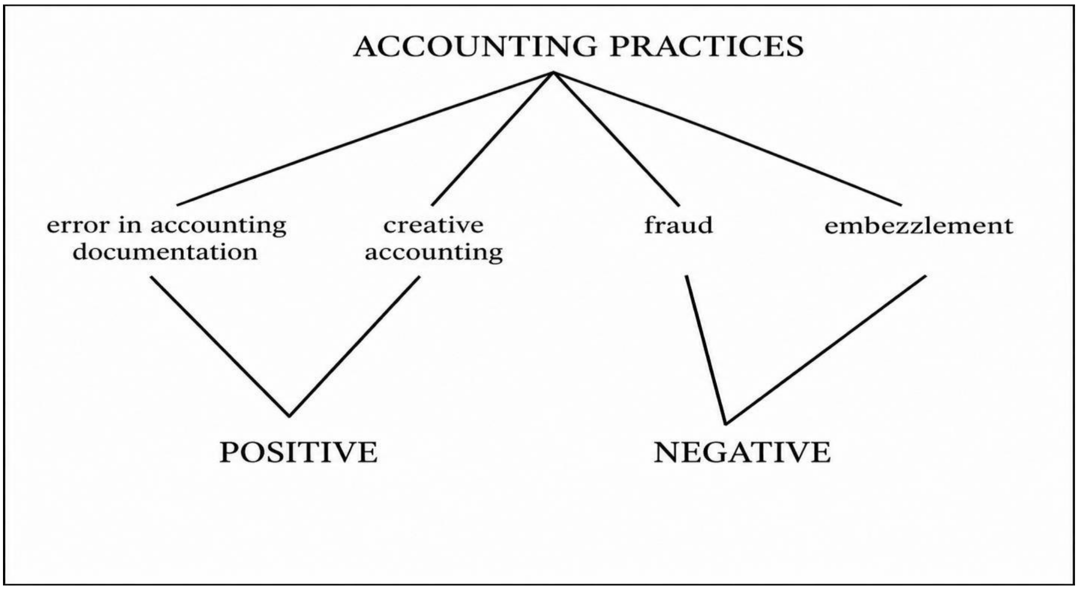

Figure 1 Classification of Accounting Practices

Source: Author's own elaboration

Both aggressive accounting and creative accounting arise from the application of different accounting practices. Nevertheless, the fundamental condition distinguishing positive creative accounting is strict compliance with the basic principles of accounting policy. One of the most important of these is the **true and fair view principle**, which requires, among other things:

- the preparation of financial statements on the basis of properly maintained and complete accounting records;
- the correct measurement of assets and liabilities presented in the statement of financial position, supported by physical verification through inventory procedures where appropriate;
- the proper recognition of revenues and expenses in accordance with the **matching principle**;
- consistency between the reported financial information and the underlying economic substance of transactions;
- the presentation of an objective and faithful representation of the entity's financial position and performance (Wąsowski W., 2005).

Only after these requirements and all applicable legal regulations have been satisfied is an entity granted a certain degree of discretion in accounting practice, enabling it to adapt its accounting policy to the specific characteristics of its operations and current business objectives.

The essence of creative accounting stems directly from the structure of the accounting system itself, which is largely based on estimates, assumptions, and professional judgement. Consequently, accounting measurement can never be considered entirely objective, as its precision depends not only on the available information but also on the competence, diligence, and professional judgement exercised by accountants (Hołda A., 2016).

Furthermore, accounting standards frequently provide entities with a degree of flexibility by permitting the selection of alternative methods for measuring, recognising, or presenting particular transactions and economic events (Lakis V., et. al., 2018). This flexibility demonstrates that, despite its apparent precision, accounting is not a completely deterministic system. Managers and accountants therefore possess legitimate discretion in shaping the presentation of financial statements and reported financial performance.

For this reason, creative accounting should be regarded as an inherent feature of modern financial reporting rather than an abnormal practice. When exercised within the framework of accounting regulations and professional ethics, it constitutes an instrument that enables accounting information to better reflect economic reality. Properly understood, creative accounting should therefore be associated with **innovation, professional judgement, and faithful representation**, rather than with deception, fraud, or financial misconduct.

Indeed, the growing complexity of contemporary business transactions and the increasing number of situations not explicitly addressed by accounting standards require accountants to exercise informed professional judgement. Consequently, creativity has become an indispensable component of high-quality accounting practice. However, such creativity must always remain within the boundaries established by accounting legislation, professional ethics, and the overarching objective of providing users with reliable, transparent, and decision-useful financial information.

Ultimately, the distinction between creative accounting and aggressive accounting lies not in the accounting techniques themselves but in **their purpose**. If accounting methods are applied to enhance the faithful representation of an entity's economic reality while remaining fully compliant with accounting standards, they constitute legitimate creative accounting. Conversely, if identical techniques are employed to intentionally mislead stakeholders or conceal the entity's actual financial position, they become manifestations of aggressive accounting or accounting fraud.

The Author's Perspective on Creative Accounting and Aggressive Accounting

Financial statements play a fundamental role in assessing an enterprise's performance through financial analysis. In contemporary business decision-making, financial analysis based on financial statements constitutes the cornerstone of the information system supporting effective management processes. Access to a comprehensive financial reporting system enables an entity to anticipate changes in its business environment, identify potential risks, select appropriate risk mitigation strategies, and develop suitable strategic scenarios.

Financial statements represent the final output of the information-processing system in accounting and constitute the primary source of information regarding an entity's financial position and performance. Their scope and content are determined by accounting legislation. To ensure transparency, reliability, and credibility, financial statements should be prepared in accordance with established accounting principles. Although various theoretical approaches exist regarding their interpretation and presentation, a number of overarching principles are universally recognised and accepted.
The most important of these principles include:

- **Fundamental qualitative characteristics:** relevance and faithful representation;

- **Enhancing qualitative characteristics:** comparability, verifiability, understandability, and timeliness (Mokrzycka-Kogut K., 2022).

The **IASB Conceptual Framework for Financial Reporting** establishes a hierarchy of qualitative characteristics of useful financial information. Information is considered **relevant** if it is capable of influencing the economic decisions of users. According to the Conceptual Framework, information may remain relevant even if some users choose not to use it or have obtained similar information from alternative sources (Grabiński K., 2016). Useful financial information is that which possesses **predictive value**, **confirmatory value**, or both. An essential aspect of relevance is **materiality**. Information is regarded as material if its omission, misstatement, or inaccurate presentation could reasonably be expected to influence the decisions made by users of the financial statements regarding the reporting entity (Kusior A., 2013). At the same time, the IASB emphasises that it is not possible to establish universal quantitative or qualitative materiality thresholds, as materiality depends on both the nature and the magnitude of the item to which the information relates (Grabiński K., 2016). The principal accounting standard governing the formal and substantive requirements of **general-purpose financial statements** is **IAS 1 – Presentation of Financial Statements**. IAS 1 specifies the minimum information that reporting entities are required to disclose. According to paragraph 9 of IAS 1, financial statements[1] provide a structured representation of an entity's financial position and financial performance. Their objective is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions (Buk H., 2018). For this reason, every set of financial statements is accompanied by **the notes to the financial statements**, which provide users with more detailed information necessary for a proper understanding of the reported financial data. International Financial Reporting Standards (IFRS) define not only the mandatory disclosure requirements but also allow entities to present additional information considered essential for understanding their specific circumstances. Consequently, the qualitative characteristic of **relevance** is achieved not only through the presentation of primary financial statements but also through comprehensive disclosures contained in the accompanying notes, where material information that cannot be adequately presented elsewhere is provided.

The explanatory notes therefore play a crucial role in enhancing the usefulness of financial reporting. They supplement the numerical information presented in the primary financial statements by providing qualitative explanations, accounting policy disclosures, significant estimates and judgements, and additional details concerning individual line items. As a result, users are better able to understand the economic substance of transactions and events, thereby improving the transparency and decision-usefulness of financial Reporting (Kusior A., 2013).

The second fundamental qualitative characteristic of financial information is **faithful representation**, which replaced the former concept of the **true and fair view**. To achieve faithful representation, financial information must be complete, neutral, and free from material error. According to the **IASB Conceptual Framework for Financial Reporting**, *"to be useful, financial information must not only represent relevant phenomena but must also faithfully represent the substance of the phenomena that it purports to represent."* **R. Mala** and **P. Chand** note that replacing the traditional concept of the *true and fair view* with *faithful representation* has been subject to considerable criticism in the accounting literature (Mala R., 2015). Nevertheless, under the current Conceptual Framework, faithful representation constitutes one of the two fundamental qualitative characteristics of useful financial information.

Completeness requires the disclosure of all information necessary for users to understand the reported economic phenomenon, including descriptive explanations, accounting policies, measurement methods, assumptions, and classifications of reported items. Consequently, faithful representation cannot be achieved without comprehensive **notes to the financial statements**. Besides supplementing information presented in the primary financial statements—particularly the **statement of profit or loss and other comprehensive income** and the **statement of financial position**—the notes should also disclose information that does not satisfy the recognition criteria for inclusion in the primary statements but remains essential for users' understanding of the entity's financial position and performance. Neutrality constitutes another indispensable element of faithful representation. In this respect, the explanatory notes play a particularly important role because they frequently contain management judgements, assumptions, and accounting estimates. Such disclosures should therefore be prepared in an objective and unbiased manner, avoiding any intentional influence on users' economic decisions (Kusior A., 2013). The requirement that information be **free from material error** does not imply absolute precision in every aspect of financial reporting. Rather, it means that there are no errors or omissions in describing the reported phenomenon and that the process used to produce the reported information has been selected and

[1] According to IAS 1, a complete set of financial statements comprises: the statement of financial position (balance sheet), the statement of profit or loss, the statement of changes in equity, showing either all changes in equity or changes in equity other than those arising from transactions with owners in their capacity as owners, as well as the statement of cash flows and the notes, including a summary of significant accounting policies and other explanatory information.

applied appropriately. Consequently, accounting estimates may still satisfy the criterion of faithful representation, provided they are based on reasonable assumptions and are disclosed transparently(IASB).

To enhance the usefulness of financial information, the IASB identifies four **enhancing qualitative characteristics**: **comparability**, **verifiability**, **timeliness**, and **understandability**. Comparability enables users to identify similarities and differences between financial information reported by the same entity over different reporting periods as well as between different reporting entities. Accordingly, financial statements should include comparative information relating to previous reporting periods or corresponding reporting dates whenever required by accounting standards (Kusior A., 2013). Verifiability provides users with assurance that financial information faithfully represents the underlying economic phenomena. It also implies that independent and knowledgeable observers could reach a consensus that a particular representation constitutes a faithful depiction of the reported event, even though complete agreement may not always be achieved. In many cases, verification requires the disclosure of significant assumptions, estimation techniques, and other supporting evidence underlying the reported figures (Grabiński K., 2016).

Timeliness refers to making information available to users in sufficient time to influence their economic decisions. Since the usefulness of financial information decreases as it becomes outdated, financial reporting should strike an appropriate balance between comprehensiveness and reporting speed. Preparing high-quality disclosures inevitably requires time; however, excessive delays may substantially reduce their decision usefulness. Consequently, management should ensure that the preparation of explanatory notes is organised in a manner that allows relevant information to be communicated promptly without compromising its quality.

Under IFRS, the explanatory notes should therefore not only satisfy disclosure requirements but also contribute to improving the overall usefulness of financial reporting by presenting information in a clear, coherent, and timely manner.

Another essential qualitative characteristic of useful financial information is **understandability**, which the IASB defines as the classification, characterisation, and presentation of information in a clear and concise manner (Accounting for Sustainability (A4S)). Financial statements are intended for users who possess a reasonable knowledge of business, accounting, and economic activities and who are willing to study the information with appropriate diligence. Nevertheless, the growing complexity of business transactions and the increasing volume of financial disclosures often require users to seek professional assistance in interpreting certain aspects of financial reporting (Mokrzycka-Kogut K., 2022).

The continuous expansion of disclosure requirements under IFRS has raised concerns regarding **information overload**. Financial reports have become increasingly extensive, and in many cases their structure lacks coherence, making it difficult for users to identify information that is truly relevant to their decision-making process. Excessively detailed disclosures may therefore reduce, rather than enhance, the understandability of financial statements. At the same time, entities should not deliberately omit complex or technically demanding information from the explanatory notes merely because it may be difficult for some users to comprehend. Such omissions would inevitably result in incomplete and potentially misleading financial reporting.

In addition to the qualitative characteristics that determine the usefulness of financial information, the **cost constraint** represents an important limitation within the IASB Conceptual Framework. The preparation, processing, verification, and dissemination of financial information generate significant costs for reporting entities. Likewise, users incur costs associated with obtaining, analysing, and interpreting financial information. Consequently, the benefits derived from financial reporting should outweigh the costs of producing and using that information. Where relevant information is unavailable, entities may be required to incur additional costs to obtain data necessary for informed managerial and investment decisions. Therefore, achieving an appropriate balance between the costs and benefits of financial reporting remains one of the fundamental objectives of accounting regulation (Samelak J., 2004).

It should also be emphasised that, without properly prepared **notes to the financial statements**, it is impossible to fully assess whether financial reporting satisfies both the fundamental and enhancing qualitative characteristics of useful financial information. The IASB Conceptual Framework should therefore be viewed as providing guiding principles rather than rigid rules. Financial statements become truly useful only when an appropriate balance is achieved among the various qualitative characteristics.

For example, even the most accurate and reliable financial information loses much of its usefulness if it is disclosed too late to influence users' decisions. Conversely, although timely information is highly valuable, excessive emphasis on speed should not compromise its reliability or faithful representation. Accordingly, the IASB Conceptual Framework advocates balancing these qualitative characteristics while ensuring that the benefits of providing information exceed the costs associated with its preparation (Schneider K., 2007).

In practice, however, accounting regulations do not always provide explicit guidance for every economic transaction or business event. In such situations, accountants must understand not only the literal wording of accounting standards but also their underlying objectives and economic rationale. Professional judgement and creative interpretation become indispensable in ensuring that transactions are recognised, measured, and presented according to their **economic substance rather than merely their legal form**.

Properly understood, creativity is therefore an inherent and necessary element of contemporary accounting practice (Król D., 2015). Nevertheless, it must always operate within the boundaries established by accounting regulations, professional ethics, and the objective of faithfully representing an entity's financial position and performance (Sawicki K., 2013). Creativity should never be confused with the manipulation of accounting records or financial statements (Karmańska A., 2008).

The term **creative accounting** is frequently used incorrectly and almost exclusively in a negative sense. In reality, creative accounting solutions may be entirely lawful and beneficial for users of financial statements. The extensive body of accounting regulations has been developed to ensure that economic transactions are reported according to their underlying economic substance. Consequently, the disclosure of relevant, complete, and reliable financial information depends not only on accounting standards themselves but also on the competence, professional judgement, and ethical conduct of those responsible for preparing financial statements.

Creative accounting therefore involves exercising professional discretion arising from the absence of detailed accounting rules or explicit standards governing every possible economic event. Such discretion applies throughout the entire financial reporting process, including:

- **recognition** of assets, liabilities, revenues, expenses, and provisions;
- **measurement** of assets and liabilities;
- **presentation** of financial statement items; and
- **disclosure** of information in the notes to the financial statements.

When exercised responsibly, this discretion enables accountants to present economic reality more faithfully while remaining fully compliant with applicable accounting standards.

Analysis of Creative Accounting: The Case of CD Projekt

An example of a company that has consciously employed lawful accounting solutions associated with **creative accounting** to achieve its managerial objectives is the Polish publicly listed company **CD Projekt S.A.** The company operates in the new technologies and digital entertainment sector, specialising primarily in the development and distribution of computer and video games, as well as in licensing the intellectual property generated through its products. CD Projekt is listed on the **Warsaw Stock Exchange** and operates as the parent entity of the **CD Projekt Group**, which also includes **CD Projekt Red Inc.**, **CD Projekt Red Canada Ltd.**, and **CD Projekt Silver Inc.**

The video game industry is characterised by an exceptionally high level of innovation, requiring continuous adaptation to rapidly changing market conditions, technological advances, and evolving business models. Another distinctive feature of the industry is the relatively high barrier to market entry, resulting primarily from substantial investment requirements, particularly in research and development (R&D) activities. The development and commercialisation of modern video games involve significant financial commitments arising from multi-stage design, programming, testing, and implementation processes. Furthermore, projects typically require several years to complete before generating commercial revenues. The combination of considerable upfront investment and a long payback period substantially increases the business risk faced by companies operating in the gaming industry. Consequently, accounting systems employed by such entities must ensure the appropriate recognition and allocation of development expenditures and related revenues throughout the project lifecycle while faithfully representing the entity's financial position and performance.

From an accounting perspective, one of the most significant issues in the case of CD Projekt concerns the recognition of expenditures incurred during the development of video games. The key accounting decision relates to the **capitalisation of development costs** as **intangible assets**, rather than recognising these expenditures immediately as period expenses. Had the company adopted the latter approach, it would likely have reported substantial accounting losses during the development phase of its projects, reflecting the considerable time lag between the incurrence of production costs and the generation of revenues following the commercial release of a game. Such financial results could have adversely affected investors' assessment of the company's financial condition despite the strong economic potential of the projects under development.

In accordance with applicable accounting regulations and international accounting standards, the capitalisation of development costs allows these expenditures to be recognised systematically over the periods in which the related projects generate future economic benefits. Following the commercial launch of a game, the capitalised costs are amortised, thereby ensuring compliance with the **matching principle**, under which expenses are recognised in the same periods as the revenues they help generate. As a result, the financial statements provide a more faithful representation of the company's financial position and performance because substantial development expenditures incurred during the production phase do not distort the financial results of a single reporting period but are allocated over the expected economic life of the project.

To illustrate the positive application of creative accounting, the consolidated financial statements of the **CD Projekt Group** for the years **2019–2020** were analysed. According to the Group's accounting policy concerning intangible assets, expenditures directly attributable to game development projects are recognised as **development work in progress**. Upon completion of the development phase, these expenditures are reclassified as **completed development costs** and subsequently amortised. The amortisation method is determined primarily on the basis of product sales, while the straight-line method is applied where sales-based amortisation is not appropriate. This accounting treatment represents a legitimate application of accounting methods permitted under both accounting legislation and international accounting standards. By capitalising development expenditures, the company allocates these costs to the reporting periods in which the projects generate economic benefits, thereby ensuring compliance with the matching principle. Consequently, the financial statements provide a more accurate representation of the Group's financial position by reducing the impact of substantial development expenditures on the financial performance reported during the production stage.

An analysis of the financial statements of the CD Projekt Group for **2019–2020** reveals a remarkable increase in sales revenue, rising from **PLN 521.3 million** in 2019 to **PLN 2.14 billion** in 2020. This exceptional growth was primarily attributable to the release of **Cyberpunk 2077**, the largest development project in the company's history, which was launched on **10 December 2020**. By the end of that year, approximately **13.7 million copies** of the game had been sold, resulting in record-breaking financial performance.

At the same time, the financial statements demonstrate that the period preceding the game's release was characterised by relatively limited revenue generation combined with substantial investment in development activities. The carrying amount of **capitalised development costs** recognised as intangible assets amounted to **PLN 385.8 million** at the end of 2019 and increased to **PLN 406.8 million** by the end of 2020. This indicates that, despite the completion and commercial release of the project, the Group continued to recognise a significant volume of capitalised development expenditures. This increase resulted primarily from continued product enhancement, post-launch support, software updates, and additional expenditures associated with the market introduction of the game.
These findings confirm that the accounting policy adopted by CD Projekt enabled substantial development expenditures to be recognised over the periods during which the project generated economic benefits. Consequently, the **matching principle** was preserved, while the reported financial performance more accurately reflected the economic substance of the project rather than merely the timing of cash outflows.

Particular attention should also be paid to the amortisation of capitalised development costs. During the analysed period, amortisation expense increased dramatically from **PLN 297 thousand** in 2019 to **PLN 5.42 million** in 2020, representing an increase of approximately **1,724%**. This significant rise resulted directly from the commercial launch of *Cyberpunk 2077* and the commencement of amortising development expenditures that had previously been recognised as intangible assets.

Accordingly, expenditures incurred during the development phase began affecting the company's financial performance only when the project started generating sales revenues. Despite the considerable increase in amortisation expense, the CD Projekt Group reported a **net profit** in 2020 that exceeded the previous year's result by **PLN 979.0 million**. This outstanding financial performance was primarily attributable to the commercial success of *Cyberpunk 2077*, while the adopted accounting policy ensured an appropriate matching of revenues and expenses through the systematic amortisation of capitalised development costs.

The analysis demonstrates that the application of accounting methods permitted under existing accounting regulations enabled the company to provide a more faithful representation of both the economic substance of the project and its financial position.

The accounting solutions adopted by CD Projekt significantly influenced the presentation of the company's financial position and performance in its financial statements. Capitalising development costs allowed substantial expenditures incurred during the production phase to be recognised initially as assets and subsequently allocated to the reporting periods in which the project generated revenues. Consequently, the considerable investment made before the commercial launch of the game did not reduce the financial result of a single reporting period but was recognised gradually through amortisation in accordance with the matching principle.

This accounting treatment provided a more appropriate representation of both the project's economic lifecycle and the company's overall financial condition. The financial statements reflected the specific characteristics of the multi-year video game development process, reducing the distorting effect of significant investment expenditures incurred before commercialisation. Such financial reporting enables investors, shareholders, and other stakeholders to assess the company's economic performance and future earnings potential more objectively.
It should be emphasised that the accounting policies adopted by CD Projekt were not intended to mislead users of the financial statements. Rather, their purpose was to ensure the most faithful possible representation of the company's financial position, financial performance, and operating results. The methods applied in accounting for development costs fully complied with applicable accounting legislation and accounting standards while reflecting the specific characteristics of the company's business activities.

The case of CD Projekt therefore constitutes an instructive example of the **positive application of creative accounting**, understood as the lawful use of accounting options permitted by accounting regulations to achieve a more faithful representation of an entity's economic reality. The adopted accounting policy ensured compliance with the matching principle, enhanced the usefulness of financial information, and more accurately reflected the economic characteristics of long-term development projects. Consequently, the company's financial statements provided users with more reliable, comparable, and decision-useful information regarding its financial condition and future capacity to generate economic benefits.

Conclusions

Contemporary accounting serves as an information system whose primary purpose is to provide reliable financial information that supports economic decision-making, particularly decisions of a financial nature. At the same time, it constitutes an important mechanism for evaluating the stewardship of entrusted resources and assessing management's effectiveness in achieving organisational objectives. As the business environment continues to evolve, increasing demands are placed on the quality of information generated by accounting systems, causing modern accounting to extend well beyond its traditional record-keeping function.

In practice, not every economic event is explicitly regulated by accounting legislation or accounting standards. Consequently, accounting professionals are expected not only to possess comprehensive knowledge of the applicable regulations but also to exercise sound professional judgement in interpreting them appropriately. Such interpretation should be guided by an understanding of the purpose and underlying intent of accounting regulations, ensuring that business transactions are recognised and reported in a manner that faithfully reflects their economic substance. In this context, creativity should not be understood as the manipulation of financial information but rather as the professional application of knowledge, expertise, and judgement when selecting accounting methods permitted by the applicable regulatory framework. Properly understood, creativity therefore constitutes an inherent component of modern accounting and an essential prerequisite for high-quality financial reporting.

Creative accounting, when interpreted in its positive sense, refers to the deliberate application of accounting methods permitted under accounting legislation and accounting standards to ensure a **true, fair, and faithful representation** of an entity's financial position, financial performance, and operating results. The essence of this approach lies in selecting, from among the accounting alternatives permitted by existing regulations, those methods that most appropriately reflect the economic substance of transactions and the specific characteristics of the entity's business activities. It also encompasses appropriate disclosure of information relating to recognised and unrecognised transactions, including off-balance-sheet information where relevant, thereby enabling users of financial statements to make an objective assessment of the entity's financial condition and future prospects. From this perspective, creative accounting represents the flexible application of accounting regulations within the boundaries established by law. Its objective is not to manipulate financial results or mislead users of financial statements but rather to provide the most faithful possible representation of the economic reality of the reporting entity. The appropriate selection of accounting policies relating to measurement, recognition, and presentation enhances the quality of financial reporting by more accurately reflecting the specific characteristics of an entity's operations and supporting informed decision-making by investors, creditors, and other stakeholders.

The findings of this study demonstrate that creative accounting, understood as the lawful application of accounting methods relating to the recognition, measurement, presentation, and disclosure of economic events, constitutes an effective instrument for improving the faithful representation of an entity's financial position, financial performance, and operating results. Selecting accounting methods that appropriately reflect the specific nature of an entity's activities increases the usefulness of financial information presented in financial statements while supporting users in making well-informed economic decisions.

At the same time, accounting techniques deliberately employed to distort the economic reality of an enterprise should not be identified with creative accounting in its positive sense. Practices intended to mislead users of financial statements, violate accounting regulations, or disregard the fundamental principles of financial reporting constitute manifestations of **aggressive accounting** or **accounting fraud**. Such practices may result in an inaccurate assessment of an entity's financial condition, inappropriate investment and lending decisions, and ultimately undermine confidence in financial reporting.

The analysis therefore indicates that the distinguishing feature of creative accounting is determined not by the selection of specific accounting methods themselves but by the purpose for which they are applied and their compliance with accounting regulations and the principle of **faithful representation**. Under these conditions, creative accounting may serve as a valuable instrument for enhancing the quality of financial reporting, provided that it is employed to present an entity's actual economic circumstances rather than to create a desired financial image.

Aggressive accounting, by contrast, is fundamentally different in nature and should be regarded as a form of accounting fraud. It involves the intentional application of accounting methods designed to distort the presentation of an entity's financial position, financial performance, or operating results, thereby violating both the principle of faithful representation and applicable accounting regulations. Such practices may involve direct breaches of accounting law as well as the exploitation of regulatory loopholes or formally permissible accounting treatments applied contrary to their underlying economic purpose. Their objective is to create a financial image that is more favourable than the entity's actual economic condition, potentially misleading investors, creditors, and other users of financial information. Unlike creative accounting in its positive interpretation, accounting fraud constitutes deliberate misconduct aimed at obtaining unjustified or unlawful benefits at the expense of the credibility and reliability of financial reporting.

It is therefore inappropriate to use terms such as **creative accounting**, **aggressive accounting**, **accounting fraud**, **financial statement falsification**, and **financial crime** interchangeably. Although these concepts are often confused in both academic literature and business practice, clear conceptual distinctions exist between them.

Failure to recognise these differences may lead to an inaccurate understanding of the role of creativity in accounting and to unjustified negative perceptions of legitimate accounting practices that faithfully represent economic reality.

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